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World Economics Association Newsletter

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Who are our allies?

By Peter Swann

The large membership of the WEA shows that a lot of heterodox economists want to see substantial change in academic economics. However, I believe this goal will not be achieved by heterodox economists acting on their own. We need more allies outside the heterodox economics community, and the purpose of this article is to start a discussion about where such allies can be found.[1]

Some of our best allies have been students of economics. Their best-known contribution has been to demand that they are taught theories relevant to the financial crash. In the UK, many people in government and business describe students as 'customers', and are very critical if a university fails to cater for the wishes of its customers. This is quite a powerful force for change. And it is good to hear about the efforts of the *Reteaching Economics* group to reciprocate by showing what early career academics can do for these students.[2]

As I see it, many religious leaders share our concern about the state of economics. Pope Francis has been quite outspoken about this, and so also have the present and previous Archbishops of Canterbury. I am less well acquainted with the views of religious leaders from other religions.

And, surprising as it may seem, I think we can also find some allies in mainstream economics. In my experience, some friends from the mainstream have been willing to discuss concerns privately, and have even conceded that heterodox criticism is justified. However, they are usually unwilling to say so in public, and the official mainstream response is either to ignore our criticism, or to give it a hostile reception.

In the past, I thought government economists could be powerful allies, and found many of them were very open to heterodox perspectives, and understood our concerns. But today, it seems that most government economists, in the UK at least, want mainstream thinking, and are wary of the unorthodox. Why the change? It is partly because the new generation reflect their graduate school training, and partly that they see mainstream economics as a palatable and plausible fiction, while heterodox economics is liable to reveal unpalatable and unwelcome truths.

I also believed scientists might help to see sense prevail in mainstream economics. There was some sign of this in the early history of the Santa Fe Institute. The famous dialogue between physicists and economists showed that the physicists were informal with their maths and based everything on evidence, while the economists were formal with maths and based everything on 'standard' assumptions (Waldrop, 1994, Chapter 4). To date, however, I have not seen a lot of help coming from that quarter. Even those scientists who are sceptical about mainstream economics do not necessarily want to be seen taking sides with heterodox economists.

What of other social sciences? Certainly, many sociologists and political scientists are uncomfortable with mainstream economics. This does not necessarily translate into support for heterodox economics, because some sociologists can benefit from having a stand-off with economics, and it is useful for them to have 'straw man' adversaries with a 'perverse' approach to their science. Nevertheless, there are important potential allies here.

It is perhaps less likely that that big business will be an ally. After all, most businesses do not employ economists, and the economists they meet tend to work for regulators or anti-trust authorities. In short, the economist is often seen as a nuisance who gets in the way of business, and from that point of view, indeed, it may be best for business if the economist lives in a fantasy world. Greedy oligopolists need not fear anti-trust economists who believe in Bertrand equilibrium, and insider-traders need not fear economists who believe in efficient markets. But there are important potential allies in small businesses.

Some employers would prefer to see a change in the curriculum - towards 'real life' economics and away from an emphasis on economic theory and econometric theory. But while this is true for some, it is not true for all. In the City of London, for example, there is a very strong demand for mathematically competent recruits, while the last thing bankers want is a heterodox economist who knows how much damage a voracious financial services sector can do to the rest of the economy!

And there will be many others that care, as we do, about what is wrong with mainstream economics. The route to finding these people is to ask ourselves this question. *Who is being cheated by mainstream economics*?

The precise answer to this depends on our particular concerns about mainstream economics. When I ask myself this question, thinking of the errors in mainstream applied economics that concern me most, the answer is simple: *ordinary people*. By shutting their ears and eyes to heterodox criticism, mainstream economists continue to disseminate a flawed model of economics. While this may serve the needs of government and big business, it can lead to serious errors, and when that happens, it is ordinary people who suffer. To reach the ears of ordinary people we need to work with the media, and that needs careful planning, but in my experience, a really good communications professional can almost always generate a good press story from a powerful academic argument.

These observations are made in the hope of starting a discussion about our potential allies. I would be very interested to hear the views of other WEA members.

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[1] This article was inspired by reading Stuart Birks' note, "In support of whistleblowers" (*WEA Newsletter*, Vol. 4, No. 6), though I don't discuss whistleblowing, as such.

[2] Their website is: http://reteacheconomics.org/

Economics as Superstructure

By Norbert Häring

[Address presented at the seminar "Economics and Power" on 23 March 2015, House of Lords, London]

Ladies and Gentlemen, To pay tribute to the Marxist jargon, in which Lord Skidelsky has phrased the title of my subject, I would like to start with a quote from Karl Marx: "*The ideas of the ruling class are in every epoch the ruling ideas. … The ruling ideas are nothing more than the ideal expression of the dominant material relationships, … the relationships which make the one class the ruling one, therefore, the ideas of its dominance*." In my own words, that says that not all economic ideas are created equal. Some ideas make it into the leading academic journals, others can hardly be published. Some ideas make those who develop them successful in academics or even famous and influential. Other ideas sentence those who develop them to a life at the margin at best.

Ideally, this would all be a function of how convincing the idea is and how good the academic is at developing the idea, writing it down and marketing it. But we all know, that excellence by itself does not get you very far. Another important ingredient for a successful career is how convenient your subject of study and your results are for powerful interests in society.

Economics, like all social sciences, is a product of the prevailing economic and political conditions and has a role to fulfil. If the interests of the powerful change, so does economics.

I want to give you some examples of how the mainstream conception of economics conforms to the interests of the powerful groups in society and how it changes with these interests.

Pulling up the Ladder: From Mercantilism to the Free-Trade-Doctrine

My first example is the switch from mercantilism to the free-trade doctrine of **David Hume**, **Adam Smith** and **David Ricardo** that happened in the 18th century.

Before British economists discovered free trade, the nation had been following a protectionist industrialization policy. Starting with Henry VII in 1485, this strategy turned Britain from a poor exporter of raw materials to a leading exporter of cloth. Henry levied export taxes on wool and gave privileges to wool manufacturers. As British capacity to manufacture wool increased, he and his successors raised export duties on wool. Finally, Queen Elizabeth banned wool exports altogether.

This is how Britain became the leading producer and exporter of manufactured goods. Only after Britain's predominance was firmly established, did British economists start preaching free trade to the world. Many fell for it, but others, like **Friedrich List** in Germany or **Alexander Hamilton** in the US took this new Gospel as what it was: as an attempt to pull up the ladder on which the British manufacturing industry had climbed up to world leadership.

The same would happen again in the US. Starting with Alexander Hamilton, the country pursued a protectionist industrialization strategy and was very successful with it. Only after the US had had become the industrial leader, did its economists start to preach the gospel of unconditional free trade.

Neoclassical Labor Market Theory as an Antidote to Marxism

As a second example, I would like to point you to the emergence of the neoclassical doctrine around the middle of the 19. Century. This was the time then **Karl Marx** told workers, that they were being exploited and the threat of revolution was rife everywhere.

Classical economics was not a good antidote to Marxism. **Adam Smith** would not have disagreed too much with Marx on exploitation, as you can gather from the following (slightly abbreviated) quote:

What are the common wages of labour depends everywhere upon the contract usually made between those two parties… It is not difficult to foresee which of the two parties must have the advantage in the dispute, and force the other into a compliance with their terms. The masters can hold out much longer… Though they did not employ a single workman, (they) could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week.

This was not an admissible attitude for an economist any more, once workmen were threatening to use force to end exploitation. Economists who wanted to preserve capitalism needed to overcome the classical economists' analysis of wages that are a product of negotiating power.

The following is how neoclassical pioneer **John Bates Clark** formulated the challenge:

Workmen, it is said, are regularly robbed of what they produce. This is done by the natural working of competition. If this charge were proved, every right-minded man should become a socialist.

With the marginal productivity theory that Clark and others developed he rose to the challenge of disproving the charge of exploitation. His theory claimed that at the margin, every factor of production, including labor, was remunerated exactly with what it contributed to the final product.

I would like to emphasize however, that the early neoclassical economists were quite open to redistribution.

Since they saw marginal utility decline with income, they considered redistribution from rich to poor to be a welfare-increasing policy. At that particular time, this attitude was not against the interest of enlightened rulers. This was the time when Bismarck introduced social security in Germany to appease workers and fend off the threat of revolution. The rich needed to be convinced, with the help of a convenient economic theory, that some limited redistribution of income was to their own advantage, since it helped preserve the status quo.

Defining away distributional concerns to discredit redistribution

This takes us to the third change in doctrine which I would like to highlight: By the 1930s, the main threat for the wealthy had shifted from revolution to redistribution enforced by the democratic majority. This was also a time of preparation for war. Thus, priorities of the rich and the rulers had shifted to discrediting redistribution and towards making the best use of national resources.

As a first step, **Lionel Robbins** and others banned interpersonal utility comparisons. Robbins redefined economics to be, *"the science which studies human behavior as a relationship between ends and scarce means which have alternative uses."*

This dogmatic change had the effect of pushing distributional concerns outside the realm of economic reason. Economic efficiency became the sole target. As, on efficiency grounds, it could be argued that redistribution was bad, economic reason became associated with as little redistribution as possible.

Cold-War-Economics: Anti-collectivist and Efficiency-oriented

The fourth example of a shift in economic doctrine suiting the interests of the powerful is a continuation of the third. It is the emergence and eventual predominance of methodological individualism and of the anti-collectivist schools of thought, called rational choice and public choice.

It was the time of the cold war, economists were enlisted in the ideological battle to win the minds and hearts of the people for capitalism. The aim was to focus attention on the strong point of capitalism – efficiency of allocation – and to discredit what socialism claimed as its strong points – planning, collaboration and fairness of distribution.

Ken Arrow ostensibly proved that it was impossible to come to rational collective decisions. **Anthony Downs, Mancur Olson** and **James Buchanan** built on this and portrayed the government and trade unions as the enemies of liberty. The more government did, the bigger was the threat to liberty.

The Taboos

There are some ideas, which the powerful do not like to be discussed at all.

Power is one such thing.

The powerful have a need to legitimize their power. If that is not viable, they like their power to be downplayed as much as possible to the point of becoming invisible. This is what mainstream economics is doing. Look in the index of a random economics textbook for "power" and chances are that the entry will not be where.

Power is tantamount to the absence of competition. The opposite is also true: perfect competition, the darling of mainstream economics, is tantamount to the absence of power. This is why treating the economy as if something close to perfect competition was the rule has a very important political implication. It negates the presence and importance of power.

If you pretend that workers routinely have a next-best alternative to their current job, which is only marginally less attractive, there is no power of the employer. There is no justification for unions, for layoff-protection or for unemployment benefits. If you pretend that market-power is the exception, instead of the rule, you cannot tax companies without doing a lot of harm. You cannot ask for higher wages, without losing employment. If you pretend that there is a well-functioning market for top managers, CEOs will have no real power and will need to be rewarded very handsomely for any value that they help to create.

Such assumptions which define power away almost always yield results which are very much in the interest of the powerful.

Money is Power

Money is Power, goes the saying. Thus, another subject that the powerful, don't like to be discussed is money. And mainstream economists are abiding. Banks putting out profit targets of 25 percent and achieving these were not considered excessively powerful by economists. They were declared efficient and successful. Financial institutions which individually control the flow of billions of dollars do not have any power that is worth analyzing for mainstream economics.

Even money itself has been deemphasized to the point of disappearing. Some of the most famous economists have declared that money is just a veil over what is going on in the real economy. JP Morgan and Goldman Sachs are utterly powerless in such a setting. The leading macroeconomic models– even thosae used by central banks – do not have a meaningful role for money.

The following is what **Claudio Borio** of the Bank of International Settlements says about the importance of money:

"*Modeling the financial cycle correctly requires recognizing the fundamental monetary nature of our economies: the financial system does not just allocate, but also generates, purchasing power, and has very much a life of its own*."

A financial system that creates purchasing power is very powerful.

But this is not an admissible conclusion. The power to create money is not to be seriously discussed. Therefore, almost all major economics textbooks are telling students the lie that banks are mere interamediaries, who are just channeling the money from savers to investors. The fact that banks produce the money which they lend out, is hidden behind a nonsensical money multiplier mechanism. The way this mechanism is presented, it works exclusively with cash that is being deposited, lent out and redesposited multiple times. In this mechanism, it is not visible how individual banks create purchasing power. It just happens by some magic of the system.

There is a good reason for this obfuscation. Many people still feel like President Andrew Jackson did about money creation by private businesses. They would consider it an aberration, an abuse of power. If you tell these people, how banks really create legal tender, they will either call you a conspiracy theorist, or, if they believe you, they will be outraged.

It is this popular attitude that makes it so important for banks to have economists camouflage the process of money creation.

The consequence of the taboo to treat money and debt seriously is occasional policy failure. As long as economists observe the taboo, they will remain unable to understand a monetary economy. They will be unable to learn from past mistakes and avoid them in the future.

Thank you.

Deregulation, governability and peace

By Maria Alejandra Madi

In recent decades, the emergence of the neoliberal agenda has demonstrated the intellectual victory of Hayek's ideas about the supremacy of the competitive economic order, the critique of interventionism by governments to promote economic growth and the relevance of price stability to promote economic growth in a competitive environment (Hayek, 1995). In the economic order, the principle of competition is, *par excellence*, the principle that guides the generation of wealth in an institutional context that emphasises individual freedom. As society becomes more complex, its survival depends on the selection of rules that reaffirm the primacy of the economic order where market competition is preserved.

Since the 1970s, the advance of the process of economic deregulation has been supported by the legitimization of this discourse on neoliberalism. Current concerns about social justice and peace in the global order demonstrate the validity of the ideas in Eric Hobsbawm's *Globalisation, Democracy and Terrorism*, published in 2008. Throughout the book, the reader is presented with inner tensions that shape social reality after lengthy deregulation. Hobsbawm describes the current challenges to nation-states trying to cope with issues of public order and changes in the international balance of power.

Indeed, there is world-wide evidence that indicates serious threats to social cohesion and justice in current capitalist societies. Considering those threats, Hobsbawm sharply notes that:

> They seem to reflect the profound social dislocations brought about at all levels of society by the most rapid and dramatic transformation in human life and society experienced within single lifetimes. They also seem to reflect both a crisis in traditional systems of authority, hegemony and legitimacy in the west and their breakdown in the east and the south, as well as a crisis in the traditional movements that claimed to provide an alternative to these (Hobsbawm, 2007: 137).

The extraordinary acceleration of globalization since the 1970s has been characterized by some relevant features. First, contemporary free-market globalisation has ultimately led to an increase in economic and social inequalities not only within states, but also internationally, despite the presence of a decreasing trend in extreme poverty. Second, the self-regulated market has undermined the ability of nation states and welfare systems to protect those who rely on income from wages or salaries. Third, considering the social impacts of globalisation, recent evidence indicates threats to social cohesion and justice in current capitalist societies. Finally, the deep cultural impacts of globalisation have been strengthened by the diffusion of common values and behaviours, the introduction of which have been favoured by local elites.

Besides these social and economic challenges, the collapse of the international balance of political power since the Second World War has fostered new trends. Although the number of international wars between sovereign states has declined since the mid-1960s, the number of conflicts within state frontiers has multiplied. The constant presence of arms and violence is an expression of the growing complexity of the objectives, actors and actions involved in the interstate and civil conflicts. In our times, it is difficult to establish a clear distinction between the times of "war" and "peace", such as those related to the Middle East and Iraq. Indeed, these conflicts have become endemic and can continue for decades. Looking back to the 20th century, the roots can be traced back to the collapse of the post-WWII international balance of power. Since the end of the Cold War there has been no global authority able to control or settle armed disputes. Although the territorial states remain the only effective authority, they have lost their traditional monopoly of armed force. Nations and nationalism have been affected by the end of the duopoly of the superpowers after 1989. In this setting, especially since September 2001, the "war against terror" is an expression of the recent overall challenge to public security that requires additional and special effort (Hobsbawm, 2007).

The contemporary scenario threatens individual freedom, engenders insecurity in social relations and puts pressure on the control on individuals. It is characterised by a rise in political violence. The constant presence of arms and violence is an expression of the growing complexity of the actors, objectives and actions within interstate and civil conflicts. The conflicts, such as those we observe in the Middle East, have become endemic and can continue for decades. There seems to be a general crisis of state power and state legitimacy, that is to say, the crisis is related to the "so called sovereign–state" and the challenges it faces when attempting "to carry out its basic functions of maintaining control over what happened on its territory" (Hobsbawm, 2007:51). Indeed, public security requires special efforts at the beginning of the twenty first century since the current institutions are not coping with their main task: the control the public order.

The political, economic and social dimensions of the recent transformations represent a rupture in relation to the relative order of the Cold War era (Leeson, 2003). From a national perspective, the redefinition and reorientation of the scope of the state actions have reshaped the relations between the state and corporations. The social and economic impacts of the global governance rules under the Washington Consensus need to be viewed in the context of global capital accumulation dynamics where the process of investment is increasingly becoming transnational. Nevertheless, the international dimension of investment is overwhelmed by tensions. The transnational corporation is nation-based but its reproduction is part of the reproduction of capital at the systemic (international) level. The challenges of growth and development at the beginning of this century are turning out to be more complex and reveal that the world increasingly seems to require supranational solutions to supranational or transnational problems.

In the framework of economic integration, global investors punish those governments whose economic policy options do not favor monetary stability. Indeed, domestic economic policies could potentially succeed when governments adopt not only the right macroeconomic policies, but also implement financially prudential measures and supervision practices. However, there is no global authority to assume these political decisions. Neither the World Bank, nor the International Monetary Fund, nor even the World Trade Organization is able to do this (Hobsbawm, 2007).

Power, finance and global governance are related issues that shape livelihoods. Considering the evolution of the international system of rival political powers, it is time to rethink the current forms of power, the construction of national identities and the connections with the world-economy. In truth, dollar diplomacy has turned out to require not only a set of recommendations for global economic integration, but also a process of homogenization of attitudes and behaviors all round the world (Rosenberg, 2003). Indeed, the access to international finance interacts with cultural features. In this scenario, tensions between private money, consenting financial practices and domestic public objectives have emerged in a context where the implementation of global governance rules have resulted in a particular way of reorganizing economies and societies. In this setting, autonomous domestic economic policies are virtually impossible.

Contemporary political, social and economic challenges should be analyzed in a broader context and in a broader and longer perspective. Indeed, Hobsbawm has attempted a comprehensive reflection on the human condition at the beginning of the twenty first century. According to his analysis, an "age" of economic instability, social insecurity and barbarization is emerging.

Taking into account this background, is the prospect of peace remote in the 21st century? While not wanting to express firm opinions on the future, we need to seriously think on Hobsbawm's pessimistic view of the world's future:

> A tentative forecast: war in the twenty-first century is not likely to be as murderous as it was in the twentieth. But armed violence, creating disproportionate suffering and loss, will remain omnipresent and endemic – occasionally epidemic - in a large part of the world. The prospect of a century of peace is remote. (Hobsbawm, 2007: 29-30)

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Are economists superior to other social scientists

By Grazia Ietto-Gillies [1]

En route from London to Rome I read *The Superiority of Economists* by Marion Fourcade, Etienne Ollion and Yann Algan (*Journal of Economic Perspectives,* 29, 1: 89-114).
https://www.aeaweb.org/articles.php?doi=10.1257/jep.29.1.89

Some travels within Italy – to Pisa and Siena – gave me time for musings and reflections about the content of this paper. Move forward a few weeks and back in London I have decided to turn those reflections into clicks and share them with the WEA membership.

I liked the paper very much. It is well researched, well argued, and, overall, a very interesting read. The research is based mainly on bibliometric data and largely on the US. The authors compare three major disciplines: Economics, Sociology and Political Science on the following issues dealt with in separate sections: (1) Insularity; (2) Hierarchical structures; (3) Getting a job; (4) Getting published; (5) Getting together.

Economics appears to be much more *insular* than the other two disciplines on the basis of within-field citation of the three flagship journals: *American Economic Review; American Political Science Review; and American Sociological Review.* When citing outside the strictly economics field articles from the top five economics journals (*Quarterly Journal of Economics; Journal of Political Economy; American Economic Review; Econometrica; and Review of Economic Studies)* are more likely to cite from the Finance field than from Business, Political Science, Sociology, Law or Statistics and Mathematics. Regarding the latter two disciplines it is a sign of the degree of internalization of mathematical and statistical techniques that economists are no longer in need to cite from them[2].

Economics is a more *hierarchical* discipline: 'economics more than the other fields look both inward and toward the top of its internal hierarchy.' (p. 96). In economics the process of getting jobs is '…very organized, with most departments collectively deciding on the rank ordering of their own students applying for positions. This procedure, which is uncommon in many academic fields, is possible only in the context of economists' strong internal agreement on quality criteria…' (p. 97). Moreover, 'Economists command some of the highest levels of compensation in American arts and science faculties according to the Bureau of Labour Statistics data.' (p. 89).

On 'Getting Published', the authors write: 'The economics publications market is also comparatively more concentrated than in other social science disciplines in the sense that the most-cited journals exhibit a heavier concentration of papers coming from elite departments in economics than in sociology.' (p. 98).

Finally, in terms of *professional associations*, economics appear to have established more cohesive and hierarchical organizations compared to other social sciences disciplines that have a 'more fractious character'. (p. 100).

At this point I would like to add an extra element of 'superiority' to the article's long list. In the UK Research Assessment Exercise of 2008 economics achieved the highest score of any discipline. In the so-called Research Excellence Framework of 2014 it achieved the highest score of any social sciences. Now the attentive world reader is likely to have noticed that the first result came as the worse financial crisis in 80 years hit the global economy. The second result came after years of austerity that led to millions of unemployed in Europe and saw widespread use of food banks to relieve increased poverty in the UK. These events and trends are the results of neo-liberal economic policies backed up by the mainstream economics profession. I see three possible explanations for these extraordinary results on the assessment of UK economics research. (a) Economists are truly superior researchers. (b) The assessment results are the outcome of extreme agreement within a profession which is now dominated by a main paradigm as argued in Gillies (2012). (c) The results are a sign of a very subtle sense of humour on the part of the people, institutions and machinery behind research assessment systems.

Now for my comments on the paper. There are three areas on which I would like to comment. First, the fact that most of the issues and conclusions in the paper - insularity, hierarchy, incestuous relationship between elite departments and top journals – are partly a sign and partly an effect of the single-paradigmatic nature of economics as we see it today. Most of us know that under the influence of the neo-liberal ideology, economics has moved more and more towards the dominance of the mainstream neoclassical paradigm. Fred Lee (2007) has well documented the empirics behind the mono-paradigmatic nature of economics. Donald Gillies' philosophical explanation has linked it to the Research Assessment processes (2012). Moreover, those of us who were young economists in the 1960s had the pleasure of witnessing that on both sides of the Atlantic the two Cambridges were both more open to alternative paradigms. Do we have a similar domination by one paradigm – again linked to the neo-liberal ideology – in the other social sciences disciplines? Has a similar historical process of paradigm concentration taken place also in political science and in sociology in the last 50 years? These are questions not tackled by the paper and yet badly in need of research at the interface of different disciplines of the type done by our three authors.

The second comment I would like to make relates to economists working in business schools. At p. 94-5 we read: 'Table 2 suggests that economists have in general less regard for interdisciplinarity than their social scientific and *even business school* brethren.' [My italics]. This comment seems to imply surprise at the level of interdisciplinarity of business school academics. The reality is that business schools are, by their very nature, multidisciplinary. Economists working in business schools are more exposed - than economists in economics departments - to knowledge from other disciplines including the sociology of organizations or of industrial relations as well as to strategic approaches to the firm. These fields are very relevant to real-life economics and are the ones in which we have seen cooperative research between economists and social scientists in works rarely found in top mainstream journals. Moreover, the requirements of business school students – often coming with work experience and in tune with real life economics – may force academic economists into a less abstract approach than we would find in economics departments. In my own field I can mention the important works of Raymond Vernon at the Harvard Business School on multinational companies and on internationalization processes. In the latter field there is a very large and well-organized international business community which includes economists as well as sociologists of organizations and industrial relations; marketing and strategy experts as well as accountancy academics. Their conferences are multi disciplinary and the papers are often the result of collaboration across disciplines. Nonetheless, the major problems for economics remain as most of the economics research work in business schools tends to be within the mainstream approach.

There is a third point I would like to mention. Academic economics is a very large profession and there are many, many economists working and contributing at institutions below the so-called top level. Concentrating only on elite institutions and journals may not give the full picture of what has been going on in terms of both teaching and research. In Britain many non-mainstream economists have survived the paradigmatic onslaught of the last 30 or so years by harbouring in lower level institutions or in business schools. In these organizations the requirements of paradigmatic orthodoxy were, often, traded off for more realistic approaches which made more sense to business school students or to students coming from less privileged backgrounds. Another possible research project on the sociology of the economics profession would be to shed light on differences between economics research emerging from economists working in business schools versus those working in economics departments.

I hope that some young WEA economist takes up these research challenges.

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[2] The citation from statistics and mathematics journals was relatively more relevant between the 1950s and 1980s.

WEA Conference: Ideas towards a new international financial architecture?

On line Conference Date, Discussion Forum: May 15, 2015 – July 15, 2015
Leaders: Oscar Ugarteche Galarza and Alicia Puyana Mutis

Introduction

The existing international financial architecture, left over institutions from the Bretton Woods period, proved useless to prevent or warn about the 2007-2008 crisis, or even less, solve it. Only when a new presidential grouping (G20) meeting was called in London in March 2009 were the issues discussed on how to coordinate countercyclical policies and inject resources into the economies. At that time, a UN high level Commission was named to propose reforms to the international financial architecture. The results of what became known as the Stiglitz Commission came to light in April 2010 but were shunned by some large UN member countries in the light of the non-acceptance of the principle of global solutions for global problems. Indeed, some European countries and the US still insist on national solutions, meaning the use of local regulatory agencies in the international financial field.

Eight years have elapsed since the crisis emerged in 2007. The impact on the real sector as well as the financial sector is still being felt, with no regrets from leading financial institutions or Central Banks' authorities. The leading financial problems are being dealt with at a national level in spite of being a global problem. Since 2010, the SEC has imposed large fines on TBTF banks for wrongdoings in the definition of LIBOR, the commodity markets, the exchange markets and the fraudulent sale of collateralized debt obligations with credit risk approval from the large three American credit rating agencies, while European regulators have done some of the same. Simultaneously, vulture funds attacked Argentina and made evident a nonsense of having the last creditor obtain better payment terms than the first, breaking the usual understanding of the *pari passu* principle while a New York judge held the country hostage to his decisions. Finally all the G7 economies have come to reflect over 100% public debt to GDP ratios with only one approach to solve the problem: austerity. The consequence has been depress economic activity and prices and growth, and to increase the debt indexes sharply.

Considering this background, the question arises of the need for a new international financial architecture.

Call for papers
The conference focuses on the current global financial scenario and what appears as the new international financial architecture poses many questions that need to be addressed:

1. How did the crisis affect the structure of the financial sector in the different regions of the world, what provisions where implemented to manage the impact?
2. Has the financial crisis impact the financial flows for productive sectors in the regions?
3. Have the regional financial architectures been reformed after the crisis? Do they have any margin of autonomy to reform or are they totally dependent of foreign banks and external funds?
4. Can the vulture funds be considered an element of the so called new financial structure to prevent crises or one more cause of instability?
5. Are the IMF and the available existing international reserves sufficient to prevent another major crisis?
6. Can the IMF be reformed given European and US reluctance to do so?
7. How should a debt work out mechanism function in this new global scenario?
8. Are there lessons from the Latin American debt crisis of the 1980's for Europe? Or is it new type of crisis?
9. Are the austerity programs recently imposed on indebted countries the appropriate policy measures to prevent financial crises such as the one in 2008?

Papers falling within the broad topic of the conference, though on aspects not explicitly noted here, are also welcome.

Submissions:
The deadline for paper submissions is **May l, 2015.**

Please submit the papers to mailto:weanewfinancialarchitecture@gmail.com
Please include the names, email addresses, and affiliated institutions or organizations. The guidelines for manuscripts can be found at: **http://www.worldeconomicsassociation.org/conferences/guidelines/**

Conference leaders:
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Ph. D in History and Philosophy from the University of Bergen, Norway, M. Sc. from the London Business School of the U of London, BS in Finance from the College of Business Administration, Fordham University, New York. Previously at the Catholic University of Peru and international consultant on foreign debt issues, he moved to Mexico in 2005 and entered the Institute of Economic Research at UNAM as professor in the Faculty of Economics and senior researcher. He also belongs to the Sistema Nacional de Investigadores since 2008. His career includes visiting scholarships at University of Newcastle, 2014; the Latin America Institute of the Frei Universitat von Berlin,. 2011; Institute of Latin American Studies, U. of London, 2000; Centre for Development, U. of Bergen 1993 and 1995, St Antony´s College, Oxford, 1987. Besides 50 book chapters and almost 60 papers, he also published twenty two books some with more than one edition, mostly in Spanish, one in English. Some recent titles include H*istoria Crítica del Fondo Monetario Internacional; Arquitectura Financiera Internacional: genealogía 1850-2008; La Gran Mutación. El capitalismo en el siglo XXI*.
Alicia Puyana Mutis
Phil in Economics by Oxford University. Professor and researcher at Facultad Latinoamericana de Ciencias Sociales, FLACSO, 1997 to day, teaching economic growth for D. Phil courses at FLACSO. Member of: the Colombian Academy of Economics Sciences, the Mexican Academy of Sciences, the International Development Economics Association IDEAS, the Consejo Editorial de la Editorial Anthen Press (for the Anthen Studies on Globalization). Her latest book publications (as an author, coauthor, or editor) since 2012 include**:** *La economía petrolera en un mercado politizado y global. México y Colombia; México. De la crisis de la deuda al estancamiento económico; Diez años del TLCAN. Las experiencias del sector agropecuario mexicano; América Latina. Problemas del Desarrollo en la Globalización 1980-2013; Strategies against Poverty. Designs from the North and Alternatives from the South*.

Hunger as the Primary Economic Problem

By Asad Zaman

If any group of concerned citizens would gather to discuss economic problems, it would seem natural to begin with problem of feeding the hungry. Strangely enough, one would not encounter this problem within a standard course of study of economic theory at any of the leading universities throughout the world. This is due to two major mistakes made in formulation of conventional economic theories currently being taught and practiced throughout the globe.

The first mistake is the idea that the goal of an economic system is the production of wealth, broadly defined. For example, Adam Smith takes the fundamental economic problem to be the production of wealth. The accumulation of capital, and maximization of GNP per capita is currently the core of economic growth theory. Human beings are important only to the extent that they are producers of wealth. The value of human life can be evaluated in terms of how much wealth the human can produce. This also accounts for the use of the degrading term “human resource”. Human lives are inputs into the production function, and they get paid wages equal to their marginal product, exactly on par with other inputs into the production function.

A revolution in economic theory would result if we replace this completely mistaken idea with its opposite: The goal of an economic system is to increase human welfare. Wealth is important only to the extent that it can bring about increases in human welfare. In conjunction with wealth, many other types of invisible inputs, such as social capital, cultural norms, and institutional structures, also play an important role in determining human welfare, broadly understood in terms of all dimensions of life which contribute to our collective well-being. Wealth, capital, and production of goods and services are resources to be used to help improve human lives. A central goal of economics should be the relation between resources, and their relative efficiency at contributing to human welfare. In particular, providing food to the hungry is clearly the single most important and universal invariant in production of human welfare. Exactly the same amount of resources can lead to vastly different outcomes in terms of human welfare. The fundamental economic problem is to study how to use a given amount of wealth to produce the maximum amount of welfare.

The second mistake, engendered by the first, is the idea that investment in physical capital is the main source of growth and development. Mahbubul Haq (2003) pioneered the replacement of GNP by the Human Development index. Amartya Sen (1999) follows up by arguing, at book length, that progress is about the development of human capabilities. The United Nations now defines development as the ability “to lead long and healthy lives, to be knowledgeable, to have access to the resources needed for a decent standard of living and to be able to participate in the life of the community.” Of course, food is the sine-qua-non of human development. Wealth, capital, goods and services, must all be evaluated in terms of their effects on human welfare. Many factors not usually considered by economists come into play in such an evaluation. The importance of social norms, trust, cooperation and other soft factors is gradually gaining recognition as important contributors to welfare.

Conventional economic theories are responsible for a huge amount of misery. In the Reagan era in the USA, these theories led to tax cuts for rich, financed by increased taxes on the poor and reduced social services. The idea was that the rich are more efficient producers of wealth, while providing food to the poor would create a drag on the economy. More recently, trillions of bailouts were given to the financial industry, while hunger and homelessness reached record levels since virtually no relief was provided to mortgage holders in distress. Similarly, developing economies all over the world invest massively in industrialization and fancy mega-projects, while not providing basic social services to the poor. A recent UNICEF report shows that the costs of these misguided policies are paid by the children, who are stunted, malnourished and die in large numbers, to allow repayments of interest on debt; see Child Rights Governance for related literature and references

A revolution in planning for growth would result from taking seriously the idea that humans being have far more capabilities and potential than any kind of machine. History gives us many examples of human beings who have changed the world, for the better or worse. Given the right environment and training, all children have the potential for extraordinary genius. It is our collective task as a society, to ensure that all children get the opportunity to develop this potential. The economic system is valuable only as a means to achieving this goal. This means that providing basic necessities like food, healthcare, and education is actually the most valuable investment we can make. Unfortunately, conventional theories of growth, currently routinely being applied throughout the world, do not recognize this fact. As a result, these false economic theories lead us to invest in industry, instead of our children, who represent our greatest potential, and our future.

The spectacular failure of conventional economic theories during the Global Financial Crisis has strengthened and created several movements for reform of these theories, ranging from mild to radical and revolutionary. Many of these reforms are taking on board the idea that economic growth is a means to providing for the people. Perhaps we can hope for a better future?

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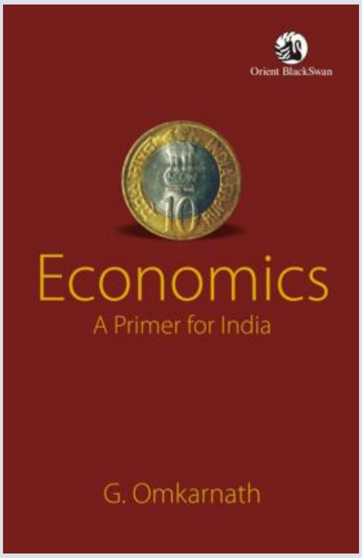
Review: of Economics: A primer for India

By Stuart Birks and Srikanta Chatterjee

Omkarnath G. *Economics: A Primer for India*, Hyderabad: Orient Blackswan Private Limited 2013, xix + 271pp. ISBN 978 81 250 4632 5

Srikanta Chatterjee

It would be fair to say that the importance of the discipline of economics as a social science and its usefulness in public policy-making are widely recognised. However, the manner in which its academic curricula has evolved over a long time has come to be increasingly criticised as either too narrow or unnecessarily abstract or both. In recent times lay observers and professional policy makers alike have questioned the relevance of the subject when its practitioners fail to foresee such catastrophic "real world" phenomena as the global financial crisis, for example. The questions as to how economics should be approached as an academic discipline, what sort of issues it should deal with and what other cognate disciplines an aspiring economist should also be exposed to are being raised around the world.



The present book is largely a response to these challenges. It seeks to address another challenge, viz. to make the subject particularly useful and relevant in an Indian context. It seeks to develop an approach that enables the reader to understand the functioning of the society around them within an analytical framework which is not too "technical" or abstract. In its two major parts and a shorter addendum, it does put together a coherent account of the Indian economy in both its existing structure and some temporal changes to it. As a social science, economics cannot free itself completely from a political/ideological leaning in its discourses. The present book probably leans toward a "leftist" or a Marxian framework. Its intended readership, as stated in the preface, are the undergraduates in Indian tertiary institutions and the interested non-specialists wishing to understand the Indian economy and its changes. It couches its discussion of the selected topics around what may be termed a "common sense" approach, rather than a particular theoretical framework. Rudiments of economic theory are introduced in the very last chapter which should help provide an analytical perspective to the topics discussed in the book. This approach has helped the book to avoid being entirely descriptive or using a conventional theoretical framework in all its discussions, as is often done in books targeting both the undergraduate student and the "interested layman".

With the Indian economy as its canvas, references to such issues as unpaid or underpaid labour (in households or the casual labour market); externalities such as pollution and its control through legislation; unintended consequences deriving from some labour and trade union laws for example, or the manipulation of the Minimum Support Prices of food grains in the post-1991 reform era would have further enhanced the quality of the book. But it is, admittedly, a beginner's text; it does not therefore need to cover everything that is pertinent.

The book has some strengths which may appeal to heterodox and pluralist economists. It follows in the tradition of Kurien's 'real life economics', attempting to develop an analysis building on observations in the real world. Theory comes later. This recalls an earlier tradition in economics, now largely lost with the growth of the tendency, identified by Kuhn, to force nature into our conceptual boxes.

Omkarnath recognises the importance of theory, and much of his description reminds us of conventional perspectives. However, there are important differences in terms pf the emphasis and the avoidance of extreme and unrealistic assumptions. He stresses the importance of institutions, as with the nature of competition between producers, for example. The distinction between inputs and outputs is rightly challenged on the basis that most of a firm's outputs serve as inputs to other firms and its inputs are outputs from other firms. This makes categorisation into input prices and output prices problematic at best, especially where it is assumed that one of these varies while the other does not. In other situations ceteris paribus assumptions may make little sense where many things are related to each other. For example, if price changes result in income changes to the suppliers, then it may not mean much to consider price changes while incomes are constant.

Accepted relationships for exchange are also challenged. Omkarnath claims that 94 percent of the Indian workforce operates in the *unorganised* sector, with complex social relations and systems of production. More generally, in the labour market the emphasis on rates of pay is questioned on the grounds that "moral incentives and opportunities for 'self-actualisation' may be at least as important as material rewards". As Minsky has said, theory serves as both a lens and a blinder. Starting from accepted theory we may be blind to alternative influences.

The book is very readable and illustrates some of the problems with conventional perspectives on economic behaviour. It is likely to be thought-provoking for many, including newcomers and those with a grounding in mainstream theory. An alphabetical index at the end of the book would have been most useful to readers wishing to go back to a topic for another look.

Interview on neo-structuralism

*In this interview **Esteban Pérez Caldentey**, **Miguel Torres** and **Romain Zivy** (all at the Economic Commission for Latin America and the Caribbean, ECLAC) answer questions on a recently published book on neo-structuralism by Alicia Bárcena and Antonio Prado (eds.), **Neo-structuralism and Heterodox Currents in Latin America and the Caribbean at the Beginning of the XXI Century** (2015, CEPAL, in Spanish, **available in pdf**)*

The book's editors are Executive Secretary and Deputy Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC). They provide a collection of articles by Latin American and Caribbean academics, practitioners and development experts focusing on the recent advances in structuralism and neo-structuralism. The book also identifies possible avenues of collaboration with other heterodox schools of thought including Post Keynesian, Marxist, institutionalist and evolutionary views. Both negative and positive critiques of mainstream economics are presented. The former is rationalized on theoretical and empirical grounds in terms of a break in the practice of normal science (in Kuhn's sense). Not only was the practice of mainstream economics crucial to the generation of the Global Financial Crisis (2007-2009) and the Euro Crisis (2008-2015), but it is also at the root of the current the global slowdown of emerging market economies including of those of Latin America and the Caribbean. In terms of positive critique the book develops a renewed approach and interpretation of structuralism and neo-structuralism covering such topics as structural change, the balance-of-payments constraint, the labor market, regional and external integration, and income inequality, among others. The book also presents selected country case analyses.

1. **What is neo structuralism?**

Neo-structuralism is a modern version of the structuralist current of thought which flourished in Latin America and the Caribbean in the 1950s and 1960s based on the thinking of a group of economists mostly based in ECLAC. Famous structuralists include Celso Furtado (1920-2004); W. Arthur Lewis (1915-1991), Raúl Prebisch (1901-1986), Juan Noyola Vázquez (1922-1962); Aníbal Pinto Santa Cruz (1919-1996); Osvaldo Sunkel (1929-) and Ignácio Rangel (1914-1994). The development of structuralism also benefited substantially from the work of economists such as Nicholas Kaldor and Michael Kalecki.

Structuralist thought emerged as a response to the development problems of Latin America and the Caribbean and dissatisfaction with orthodox responses. For structuralists underdevelopment was not due to exogenous forces or shocks or to bad policy, but it was rather an intrinsic feature of Latin America and the Caribbean ingrained in its own social and economic structure. Hence structuralism was a way to conceptualize the Latin American and Caribbean reality. Structuralism 'became a practice, before being a policy and a policy prior to becoming a theory.'

Structuralist thinking is articulated around the following themes: power relations between center and periphery, the criticism to comparative advantage and the prominence of the external constraint, the dual character of economic development at different levels, a vision of development as structural change, the need for an adequate regional and international insertion, the necessity of a development guided by the government especially in infrastructure and productive development.

Neo-structuralism was born as a response to the adoption of the Washington Consensus in the 1990s, of its austerity and free market oriented policies as the way for countries to solve their development problems. Neo-structuralism opposes the mantra on which the Washington Consensus was based: stabilization, privatization and liberalization. Neo-structuralism developed from ECLAC's document. *Changing production patterns with social equity: the prime task of Latin American and Caribbean development in the 1990s* (1990) largely inspired by Fernando Fajnzylber, continues to guide the most recent documents of ECLAC such as *Structural Change for Equality* (2012) and the work of economists such as Ricardo Ffrench Davis and José Antonio Ocampo.

Neo-structuralism maintains the same methodological principles and views of structuralism and constitutes an effort to confront the modern development problems faced by Latin America and the Caribbean, including how to deal with the consequences of greater liberalization in trade and finance, how to overcome productive heterogeneity, and how improve income distribution.

2. How does it compare to neo-liberalism?

Neo-structuralism sustains, in line with heterodox thinking, that there is no theoretical or empirical foundation to argue that markets can allocate goods and services in order to optimize economic and social welfare. Neo-structuralism argues that a strong state and government is essential to improve the capabilities and well being of a society. Developing countries need to overcome some of the major endogenous obstacles to their development including, low and volatile growth, low productivity, and unequal distribution of income, through active government efforts in education, health, redistributive policies and industrial policy among others.

3. In your opinion, is the perspective constructive or harmful for policy making?

Latin America and the Caribbean require a different perspective to guide their economic policy. A growth and development agenda is required and neo-liberalism does not have such an agenda. Its agenda is focused on freedom choice and of markets and on nominal stability. Latin America and the Caribbean (or at least most of the countries in the region) have achieved nominal stability but face profound development challenges that mainstream economics has proven unable to address and overcome. Poverty rates have declined at the regional level. From 1990 to 2014, the poverty rate fell from 48.4% (204 million people) to 28% (164 million people). But in spite of economic and social improvements, most Latin American and Caribbean societies still face profound levels of inequality which reflect the concentration in income and wealth and the striking production heterogeneity. On average, the region's wealthiest 10% of the population receive 32% of total income, while the poorest 40% receives 15% of the total income. At the same time access to basic services is still limited: only 39% of the population has access to social protection mechanisms, 33% to formal financial institutions and less than 40% have access to quality education. Moreover, following a period of high growth for most economies lasting for five years (2003-2007) prior to the Global Financial Crisis and a rapid recovery from the effects of the crisis, Latin America and the Caribbean is back on its mediocre growth path. These high and persistent levels of vulnerabilities over time are a reflection of underlying structural development issues highlighted by structuralists and neo-structuralists. They have been a major stumbling block to the region's social and economic development for decades.

4. In this context what might the contribution be from heterodox and pluralist approaches and what is the contribution of ECLAC to this debate?

Neo-structuralism and structuralism are open systems. They are not self-contained systems of thought. They analyze the behaviour of economic agents and social and economic structures and their interrelation within a given historical and evolutionary context. This implies that there is no complete knowledge of all variables that are included in the analysis nor of all their interrelations. The nature of variables (i.e. exogeneity/endogeneity) can change over time and the interrelation between agents and between agents and economic structures are interdependent and change over time. The open system feature of neo-structuralism and structuralism as well as some of its core features described above are shared by heterodox and pluralist approaches. The book explores how open systems such as structuralism and neo-structuralism can be easily molded an adapted to the core of other heterodox systems of thought.

The book proposes to foster a dialogue and collaboration between structuralist and heterodox economics around seven themes: (i) a methodological approach based on historical trends and measurement; (ii) the characterization of the system of economic relations around the concepts of center and periphery; (iii) the relation between income distribution, accumulation and economic growth; (iv) volatility and instability; (iv) technical progress and innovation; (vi) the relationship between the short and long-run; and (vii) the role of the State.

Call for Applications

Finding Roots of Capitalism through Environmental Reporting

Join the student newsroom team at World Resources Forum, in Davos, Switzerland, Oct 9-16, 2015

Pro Journo, a business journalism incubator, is looking for six students to join their obsession journalism program around heterodox economics and the environment. Students will be working with editors from The Economist Intelligence Unit and ABC News (former New York Times journalist) as they help produce high-quality stories to publish on projourno.org, The Huffington Post, Triple Pundit, and more. Journalism experience, while a plus, isn't a requirement to apply -- Pro Journo is looking for students with a passion for economics and the environment, and a keen interest in publishing.

More details here - Deadline: May 15th

About Pro Journo

Reteaching Economics: Boom Bust Boom

By Ioana Negru and Robert Jump, Department of Economics, School of Oriental and African Studies, London

The movement for pluralism in economics, including pedagogical pluralism, has inspired a group of enthusiastic early-career economics lecturers in the UK to constitute a new group/network committed to introducing pluralism in economics: Reteaching Economics (http://reteacheconomics.org, @ReteachEcon)

Reteaching Economics
Academics supporting student demands for pluralist teaching in economics

The group has the objective of contributing towards the change of economics curriculum through a combination of both scholarly and institutional activities or activism. The group is interested in supporting the student movement in the UK that is campaigning for the introduction of theoretical and methodological pluralism within the teaching of economics. Objectives include the introduction of new courses covering areas such as the Methodology and Philosophy of Social Sciences, and the reintroduction of courses in the History of Economic Thought. Equally important are the institutional requirements that must be met for the progress of economics as a profession and discipline. To this end there are, among other things: i) work undertaken in small groups for the reform of QAA (the Quality Assurance Agency, which influences the content of the economics teaching throughout UK); ii) action to reform of the Research Excellence framework; and iii) the organisation of workshops and events that popularise the meaning of pluralism.

The official launch of the network took place on 21st of March 2015 and coincided with the private viewing of the film *Boom Bust Boom*, produced by Terry Jones and Ben Timlett with economics input from Professor Theo Kocken, University of Amsterdam and contributions from many others. The event was open to students, academic economists, journalists, politicians, and activists. It was organised at by Ioana Negru and Robert Jump at the School of Oriental and African Studies. They are members of the Economics Department and of Reteaching Economics. The Economics Department at SOAS has a long and established tradition in teaching Political Economy and alternative perspectives such as Institutional Economics, Post-Keynesian Economics and Marxian Economics. The film was inspired by discussions between Terry Jones and economics students regarding the poor, non-pluralistic education that economics students receive and the responsibility of the economics profession for the sort of thinking which was a major factor in the economic crisis.

Boom Bust Boom

a combination of lighthearted humour and serious commentary, reveals our unstable economic system and explains why crashes happen.

The film attempts to look at the current financial crisis and the current state of the economy. It poses an important question from the outset: Why do economic and financial crises keep occurring? Whilst representing a critique of capitalism that discusses a history of crises, the film suggests two essential solutions for the current economic situation: the need to redesign the current financial system and the need to re-educate economists in the spirit of responsibility. We at Reteaching could not agree more.

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